

**DIRECT TESTIMONY OF
MARTIN K. PHALEN
ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2007-5-G**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A. My name is Martin K. Phalen, and my business address is 1426 Main Street, Columbia, South Carolina. I am employed by South Carolina Electric & Gas Company (“SCE&G” or the “Company”) as Vice President, Gas Operations.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

A. Following my graduation from the College of Charleston in 1977, I was employed with Cummins Engine Company in Charleston, South Carolina, where I held various management and executive-level positions. In 1988, I joined SCE&G. Since that time, I have held executive-level positions in Human Resources & Administration, Operational Support, and effective May 2003, Gas Operations. I am a former member of the Board of Directors for the Southeastern Electric Exchange, a member of the Executive Council for the Southern Gas Association, and am Chair for the Executive Committee of the Southern Gas Association's distance learning subsidiary, Corporate TeleLink Network.

Q. WHAT ARE YOUR DUTIES AS VICE PRESIDENT, GAS OPERATIONS?

A. As Vice President, Gas Operations for SCE&G, my corporate responsibilities include, among other things, oversight of the daily operations of SCE&G's natural gas distribution system, including maintenance and construction. Additionally, I am

1 responsible for the overall reliability of the system, which includes ensuring that the
2 system is capable of providing safe and reliable service to our customers.

3 **Q. WHAT IS THE PURPOSE OF THIS PURCHASED GAS ADJUSTMENT**
4 **(“PGA”) PROCEEDING?**

5 A. By Order No. 87-898, dated August 14, 1987, the South Carolina Public
6 Service Commission (“Commission”) instituted an annual PGA review of
7 SCE&G’s gas purchasing policies and practices. These PGA reviews are
8 conducted to determine the prudence of SCE&G’s gas purchasing policies and
9 practices during the period under review and to determine if SCE&G properly
10 applied its tariffs in recovering its gas costs.

11 It is worth noting that in every PGA review, the Commission has found that
12 SCE&G’s gas purchasing policies and practices were prudent and that the
13 Company properly adhered to the gas cost recovery provisions of its gas tariff and
14 applicable Commission directives and orders.

15 In this PGA proceeding, the Commission will hear from personnel who
16 implement SCE&G’s gas purchasing practices and policies and who address tariff
17 issues on a day-to-day basis specifically relating to the period under review,
18 September 1, 2006 through February 28, 2007 (“Review Period”). Rose Jackson,
19 General Manager – Gas Supply & Capacity Management, explains SCE&G’s gas
20 purchasing practices, gas supply and interstate pipeline capacity, followed by a
21 discussion on financial hedging. Harry L. Scruggs, Lead Rate Analyst, discusses

1 the PGA methodology for recovering the cost of gas implemented by the
2 Company pursuant to Commission Order No. 2006-679.

3 **Q. PLEASE EXPLAIN THE SHORTENED REVIEW PERIOD FOR THIS**
4 **PROCEEDING.**

5 A. In SCE&G's 2006 PGA proceeding, the parties entered into a Settlement
6 Agreement which contained the following provision:

7 11) Due to the cessation of future [South Carolina Pipeline
8 Corporation] PGA hearings as a result of the merger, the Parties
9 stipulate and agree that beginning in 2007 it would be appropriate to
10 schedule the 2007 SCE&G PGA hearing during the time period the
11 [South Carolina Pipeline Corporation] hearing was previously held.
12 Accordingly, the Parties respectfully request that beginning in 2007
13 the Commission schedule all future SCE&G PGA hearings in late
14 June. The Parties understand the 2007 SCE&G PGA will result in a
15 shortened review period.

16
17 [See Commission Order No. 2006-679, Order Exhibit 1, p.6].
18

19 In Order No. 2006-679, the Commission adopted and approved the
20 Settlement Agreement and ordered that future SCE&G PGA proceedings be
21 scheduled to occur in late June beginning in calendar year 2007. [See Commission
22 Order No. 2006-679, p.8]. As a result of scheduling SCE&G's PGA proceeding in
23 late June, the 2007 PGA Review Period was shortened to the period of September
24 1, 2006 through February 28, 2007, for this transitional period. In future PGA
25 proceedings, SCE&G anticipates that the review period will be lengthened to
26 include a twelve month time period beginning March 1 through the end of
27 February.
28

1 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

2 A. The purpose of my testimony is to describe SCE&G's natural gas
3 distribution system from an operating standpoint and discuss the primary facilities
4 that comprise the system, including the capacity of the system for serving
5 SCE&G's customers.

6 **Q. PLEASE DESCRIBE SCE&G'S NATURAL GAS DISTRIBUTION**
7 **SYSTEM FROM AN OPERATIONS STANDPOINT.**

8 A. SCE&G's natural gas distribution system consists of approximately 15,500
9 miles of transmission and distribution mains and related service facilities. The
10 Company's distribution facilities range in diameter from 5/8 inch polyethylene to
11 20 inch steel pipe and carry natural gas under pressures typically ranging from 25
12 pounds per square inch gauge ("psig") to 1100 psig in order to deliver safe,
13 reliable natural gas service to approximately 300,000 factories, businesses, and
14 homes in South Carolina. The Company also maintains 96 metered delivery
15 points through which gas is delivered to SCE&G's system and then distributed by
16 the Company to our customers. SCE&G's service area for natural gas
17 encompasses all or part of 35 of the 46 counties in South Carolina and covers
18 more than 22,000 square miles.

1 **Q. PLEASE PROVIDE A BRIEF OVERVIEW OF SCE&G’S GAS**
2 **PURCHASING PRACTICES FOR THE REVIEW PERIOD.**

3 A. During a portion of the Review Period (September 1, 2006 – October 31,
4 2006), SCE&G purchased all of its natural gas supplies from South Carolina
5 Pipeline Corporation (“SCPC”). SCPC provided SCE&G with a complete
6 merchant function, delivering reliable supplies of natural gas to SCE&G’s metered
7 delivery points. Under Commission approved tariffs DS-1 and DISS-1, SCE&G
8 contracted with SCPC for firm contract demand of 313,188 dekatherms (“Dt”) per
9 day in order to meet its customers’ firm demand under varying weather conditions
10 at reasonable cost. Additionally, SCE&G secured 40,410 Dt per day of resale firm
11 transportation peaking service from SCPC through a Commission-approved
12 contract.

13 During the remaining portion of the Review Period (November 1, 2006 –
14 February 28, 2007) SCE&G purchased all of its natural gas supply directly from
15 gas suppliers. While Ms. Jackson will testify on this subject in greater detail,
16 SCE&G’s management analyzes and considers the supply and interstate capacity
17 assets of its business on an on-going basis in order to provide safe, reliable, and
18 economical natural gas service in South Carolina. All of the variables related to
19 the growth in our state and the demand of SCE&G’s system must be balanced with
20 corresponding supply and capacity needs. In conclusion, I want to highlight in

1 this testimony that the Company procured reliable and reasonably priced natural
2 gas supplies.

3 **Q. PLEASE EXPLAIN WHY SCE&G DID NOT PURCHASE ALL OF ITS**
4 **GAS SUPPLIES FROM SCPC DURING THE REVIEW PERIOD.**

5 A. As we discussed last year in Docket No. 2006-5-G, the Federal Energy
6 Regulatory Commission issued an order approving the merger of SCPC and SCG
7 Pipeline, Inc. to form a single interstate natural gas transportation company called
8 Carolina Gas Transmission Corporation (“CGTC”). Effective November 1, 2006,
9 SCPC ceased its merchant services and began providing natural gas transportation
10 services only under the name CGTC. Thereafter, SCE&G no longer relied upon
11 SCPC for bundled natural gas service. Rather, the Company became responsible
12 for securing its own reliable and adequate gas supplies, storage, and transportation
13 to serve its customers.

14 **Q. WHAT LIQUIFIED NATURAL GAS (“LNG”) FACILITIES DOES SCE&G**
15 **OPERATE?**

16 A. As a result of the merger, SCE&G acquired LNG facilities, including the
17 land, LNG tanks, buildings, vaporizers, and equipment, from SCPC on November
18 1, 2006. These facilities are located at Bushy Park near North Charleston, and at
19 Salley, located in western Orangeburg County. The LNG facilities allow SCE&G
20 to store natural gas in a liquid form and inject vaporized gas into SCE&G’s system
21 when needed. Moreover, these assets are used primarily as a mechanism to help

1 meet peak loads on the system and as a backup supply of gas in emergency
2 situations.

3 **Q. WHAT ARE THE CAPACITIES OF THE LNG FACILITIES?**

4 A. The Bushy Park facility has the capability of converting natural gas into a
5 liquid, a process known as liquefaction. It can store up to 980,000 Mcf (thousand
6 cubic feet) of LNG. The Salley facility has the capability of storing up to 900,000
7 Mcf of trucked-in LNG. LNG must be transported to Salley via truck because
8 Salley does not possess the ability to liquefy natural gas.

9 **Q. DID SCE&G EXPERIENCE ANY INTERRUPTION IN THE**
10 **OPERATIONS OF THE LNG FACILITIES WHILE THE ASSETS WERE**
11 **BEING TRANSFERRED TO SCE&G'S CONTROL?**

12 A. No. SCE&G was fully prepared to accept the LNG facilities from SCPC
13 and integrate these assets into its gas operations on November 1, 2006. In order to
14 facilitate the transfer of facilities and minimize any impact on SCE&G's system,
15 the Company utilized the same staff used by SCPC for its LNG operations which
16 allowed SCE&G to speed the transition of these facilities into SCE&G's gas
17 operations without disruption. As a result, the acquisition of the LNG facilities
18 from SCPC was seamless and the assets were transferred to SCE&G's control
19 without any interruption to the operations of the LNG facilities or any interruption
20 to the Company's gas operations. This achievement is a testament to the planning
-1 process implemented by SCE&G in anticipation of acquiring these assets.

1 **Q. DID SCE&G EXPERIENCE ANY DISRUPTION OR DELAY IN ITS**
2 **ABILITY TO PROVIDE RELIABLE NATURAL GAS SERVICE TO ITS**
3 **CUSTOMERS WHEN IT STOPPED PURCHASING GAS SUPPLIES**
4 **FROM SCPC?**

5 A. No. As a result of careful planning by SCE&G, the Company was fully
6 prepared for SCPC's transition to an interstate pipeline. Consequently, SCE&G
7 did not experience any disruptions or delays in its ability to provide reliable
8 natural gas service to its customers.

9 **Q. WHAT ARE YOU REQUESTING OF THE COMMISSION IN THIS**
10 **PROCEEDING?**

11 A. The primary commitments of SCE&G continue to be to operate our system
12 in a safe, reliable and efficient manner. Further, our employees are committed to
13 providing outstanding customer service and operational excellence. During the
14 Review Period, the Company prudently managed its business operations, which
15 included the purchase and recovery of its gas supplies and administration of the
16 PGA. Therefore, on behalf of SCE&G, I respectfully request the Commission find
17 that the Company has recovered its gas costs for the Review Period consistent
18 with its tariffs and Commission orders and that it has purchased its gas supplies
19 and administered the PGA in a prudent and reasonable manner.

20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 A. Yes.